

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Township of Lake</u>	County Macomb
Audit Date March 31, 2005	Opinion Date May 18, 2005	Date Accountant Report Submitted To State: August 30, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Highway P.O. Box 307	City Southfield	State MI	ZIP 48037
Accountant Signature <i>Plante & Moran, PLLC</i>			

Township of Lake Macomb County, Michigan

**Financial Report
with Supplemental Information
March 31, 2005**

Township of Lake

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Independent Auditor's Report

To the Board of Trustees
Township of Lake
Macomb County, Michigan

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Township of Lake as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements. These financial statements are the responsibility of the Township of Lake's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Township of Lake as of March 31, 2005 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedule, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

As described in Note I, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of April 1, 2004.

Plante & Moran, PLLC

May 18, 2005



A worldwide association of independent accounting firms

Township of Lake

Management's Discussion and Analysis

Our discussion and analysis of the Township of Lake's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2005. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2005:

- Property tax revenue, our largest revenue source, increased by approximately \$600 this year.
- Total net assets related to the Township's governmental activities increased by approximately \$2,200. The unrestricted portion of net assets increased by approximately \$2,700.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

Township of Lake

Management's Discussion and Analysis (Continued)

The Township as a Whole

The following table shows, in a condensed format, the net assets of the governmental activities as of March 31, 2005:

	Governmental Activities	
	2005	2004
Assets		
Current assets	\$ 19,246	\$ 16,586
Noncurrent assets	<u>3,136</u>	<u>3,554</u>
Total assets	<u>\$ 22,382</u>	<u>\$ 20,140</u>
Net Assets		
Invested in capital assets - Net of related debt	\$ 3,136	\$ 3,554
Unrestricted	<u>19,246</u>	<u>16,586</u>
Total net assets	<u>\$ 22,382</u>	<u>\$ 20,140</u>

The Township's combined net assets increased 11 percent from a year ago - increasing from \$20,140 to \$22,382. In contrast, last year's net assets increased by only 2 percent.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by \$2,660 for the governmental activities. This represents an increase of approximately 16 percent. The current level of unrestricted net assets for our governmental activities stands at \$19,246, or about 127 percent of expenditures. This is within the targeted range set by the Township during its last budget process.

Township of Lake

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year. Prior year information is not available because this is the first year of the implementation of GASB Statement No. 34. Comparative data will be presented in future years.

	Governmental Activities
Revenue	
Program revenue - Charges for services	\$ 3,427
General revenue:	
Property taxes	10,424
Investment earnings	262
Miscellaneous revenue	3,208
Total revenue	17,321
Program Expenses - General government	15,079
Change in Net Assets	\$ 2,242

Governmental Activities

The Township's total governmental revenues were approximately \$17,000, despite decreases in interest income. This decrease was offset by a slight increase in property taxes and miscellaneous income.

Governmental activity expenditures of approximately \$15,000 were recorded for the year. This included increases for special projects and repairs and maintenance.

The Township's Funds

Our analysis of the Township's major funds begins on page 8, following the government-wide financial statements. The fund financial statements provide detail information about the General Fund, which is the only fund for the Township for 2005. The General Fund pays for all the Township's governmental services.

General Fund Budgetary Highlights

Over the course of the year, the Township monitors and amends the budget to take into account unanticipated events during the year. There were no significant changes during 2005.

Capital Asset and Debt Administration

At the end of 2005, the Township had \$3,100 invested in capital assets.

Township of Lake

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

The Township's budget for next year calls for a decrease in property tax rates. This can be accomplished because of the strong growth in our tax base. Because of the impact of Proposal A, however, the Township needs to continue to watch its budget very closely. The statewide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow less than by inflation, before considering new property additions.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Township office.

Township of Lake

Statement of Net Assets March 31, 2005

	Governmental Activities
Assets	
Cash and cash equivalents (Note 2)	\$ 19,246
Depreciable assets - Net (Note 3)	<u>3,136</u>
Total assets	<u>\$ 22,382</u>
Net Assets	
Invested in capital assets - Net of related debt	\$ 3,136
Unrestricted	<u>19,246</u>
Total net assets	<u>\$ 22,382</u>

Township of Lake

Statement of Activities Year Ended March 31, 2005

		Program Revenues	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Governmental Activities
Functions/Programs			
Governmental activities:			
Township board	\$ 1,200	\$ -	\$ (1,200)
Supervisor	1,200	-	(1,200)
Elections	2,426	-	(2,426)
Financial	2,000	3,427	1,427
Clerk	5,013	-	(5,013)
Board of review	500	-	(500)
Public improvements	2,240	-	(2,240)
Treasurer	500	-	(500)
Total governmental activities	<u>\$ 15,079</u>	<u>\$ 3,427</u>	(11,652)
General revenues:			
Property taxes			10,424
Interest			262
Miscellaneous			<u>3,208</u>
Total general revenues			<u>13,894</u>
Change in Net Assets			2,242
Net Assets - Beginning of year			<u>20,140</u>
Net Assets - End of year			<u>\$ 22,382</u>

Township of Lake

Governmental Fund/Reconciliation of Fund Balance to the Statement of Net Assets Balance Sheet March 31, 2005

	<u>General Fund</u>
Assets - Cash and cash equivalents (Note 2)	<u><u>\$ 19,246</u></u>
Fund Balance - Unreserved	\$ 19,246
Amounts reported for governmental activities in the statement of net assets are different because capital assets used in governmental activities are not financial resources and are not reported in the funds	<u>3,136</u>
Net assets of governmental activities	<u><u>\$ 22,382</u></u>

Township of Lake

Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance Year Ended March 31, 2005

	<u>General Fund</u>
Revenue	
Property taxes	\$ 13,693
Interest income	420
Miscellaneous	<u>3,208</u>
Total revenue	17,321
Expenditures - General government	
Township board	1,200
Supervisor	1,200
Elections	2,008
Financial	2,000
Clerk	5,013
Board of review	500
Public improvements	2,240
Treasurer	<u>500</u>
Total expenditures	<u>14,661</u>
Change in Fund Balance	2,660
Fund Balances - Beginning of year	<u>16,586</u>
Fund Balances - End of year	<u><u>\$ 19,246</u></u>

Township of Lake

Governmental Fund Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities Year Ended March 31, 2005

Net Change in Fund Balances - Total Governmental Funds	\$ 2,660
Amounts reported for governmental activities in the statement of activities are different because depreciation is recorded as an expense in the statement of activities but not in the governmental funds	<u>(418)</u>
Change in Net Assets of Governmental Activities	<u>\$ 2,242</u>

Township of Lake

Notes to Financial Statements March 31, 2005

Note I - Summary of Significant Accounting Policies

The accounting policies of the Township of Lake (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township of Lake:

Reporting Entity

The Township of Lake is governed by an elected five-member board of trustees. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Currently, the only fund of the Township is the General Fund, which is a generic fund type in the broad category referred to as governmental funds. General Fund activities are financed primarily by revenue from general property taxes.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the governmental fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

Township of Lake

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The Township maintains only one fund as follows:

General Fund - The General Fund contains the records of the ordinary activities of the Township that are not accounted for in another fund. General Fund activities are financed by revenue from general property taxes and other taxes.

Assets, Liabilities, and Net Assets or Equity

Property Taxes - Properties are assessed as of December 31. These taxes are billed on December 1 of the following year and become a lien at that time. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls.

Construction Code Fees - The Township does not collect construction code fees pursuant to the State's Construction Code Act. Accordingly, no separate reporting of this activity has been reflected in the financial statements.

Capital Assets - Capital assets, which include equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repairs and maintenance that do not add to the value or materially extend asset life are not capitalized. The Township does not have infrastructure-type assets.

Capital assets are depreciated using the straight-line method over the following useful lives:

Equipment	15 years
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Township of Lake

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Accounting Changes

GASB Statement No. 34 - Effective April 1, 2004, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34 (GASB No. 34), *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements. Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

- A management's discussion and analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Township's activities have been provided.
- The fund financial statements focus on major funds rather than fund types.

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township's cash and investments at March 31, 2005 totaled \$19,246 and are reported as cash and cash equivalents in the basic financial statements.

The breakdown between deposits and investments for the Township is as follows:

Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 11,238
Investments	<u>8,008</u>
Total	<u>\$ 19,246</u>

Township of Lake

Notes to Financial Statements March 31, 2005

Note 2 - Deposits and Investments (Continued)

Deposits

The bank balance of the Township's deposits is \$11,238, all of which is covered by federal depository insurance.

Investments

The Township's investments during the year consisted solely of bank investment pools. The bank investment pools are regulated by the Michigan Banking Act. The fair value of the position in the bank investment pools is the same as the value of the pool shares.

Investments are normally categorized to give an indication of the level of risk assumed by the Township; however, the Township's investments are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in these funds comply with the investment authority noted above.

Note 3 - Capital Assets

Capital asset activity of the Township's governmental activities was as follows:

	Balance April 1, 2004	Additions	Disposals and Adjustments	Balance March 31, 2005
Capital assets being depreciated -				
Equipment	\$ 6,272	\$ -	\$ -	\$ 6,272
Accumulated depreciation - Equipment	2,718	418	-	3,136
Net capital assets	<u>\$ 3,554</u>	<u>\$ (418)</u>	<u>\$ -</u>	<u>\$ 3,136</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities - General government	\$ 418
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Township of Lake

Notes to Financial Statements March 31, 2005

Note 4 - Budgetary Information

The annual budget is prepared by the Township supervisor and adopted by the Township board; subsequent amendments are approved by the Township board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at March 31, 2005 has not been calculated. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of the actual results of operations to the General Fund budget as adopted by the Township board is included in the general purpose financial statements.

Note 5 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township participates in the Michigan Municipal Risk Management Authority state pool program for claims relating to property loss, torts, errors and omissions, and personal injuries, and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority state pool program also operates as a common risk-sharing management program. A portion of the excess insurance is underwritten by the Authority itself.

Note 6 - Shared Expenses and Elected Officials

The Township made the following payments to the Village of Grosse Pointe Shores for shared expenses for the year ended March 31, 2005:

Public improvement expenditures	\$ 2,240
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Required Supplemental Information

Township of Lake

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 13,320	\$ 13,320	\$ 13,693	\$ 373
Interest income	100	100	420	320
Miscellaneous	2,000	2,000	3,208	1,208
Total revenue	15,420	15,420	17,321	1,901
Expenditures - General government				
Township board	1,400	1,400	1,200	200
Supervisor	1,400	1,400	1,200	200
Elections	1,970	1,970	2,008	(38)
Financial	2,000	2,000	2,000	-
Assessor	2,100	2,100	-	2,100
Clerk	5,765	5,250	5,013	237
Board of review	600	600	500	100
Public improvements	-	-	2,240	(2,240)
Treasurer	700	700	500	200
Total expenditures	15,935	15,420	14,661	759
Excess of Revenue Over (Under) Expenditures	(515)	-	2,660	1,142
Fund Balance - Beginning of year	16,586	16,586	16,586	-
Fund Balance - End of year	<u>\$ 16,071</u>	<u>\$ 16,586</u>	<u>\$ 19,246</u>	<u>\$ 1,142</u>

August 12, 2005

To the Board of Trustees
Township of Lake
795 Lake Shore Road
Grosse Pointe Shores, MI 48236

Dear Board of Trustees:

We recently completed our audit of the basic financial statements of the Township of Lake (the "Township") for the year ended March 31, 2005. As a result of our audit, we have the following comments and recommendations for your review and consideration.

New Financial Statement Format (GASB No. 34)

As you are aware, Governmental Accounting Standards Board (GASB) Statement No. 34 was implemented for the Township's 2005 fiscal year. GASB No. 34 has dramatically changed the look and feel of the financial statements. While the financial statements retain an element of familiarity with the continued reporting of fund-based information, there are several additions and changes that provide information never before presented in the Township's annual financial report. A brief summary of the changes is as follows:

- **Management's Discussion and Analysis (MD&A)** - The MD&A provides a high-level overview of the Township's financial position and results of operations, with a focus on the government-wide financial statements.
- **Government-wide Financial Statements** - These additional statements adjust the normal fund-based statements into a full-accrual format (similar to for-profit commercial enterprises). This allows a financial statement reader to see the Township from a longer-term, economic perspective. These statements show capital assets as part of the Township's overall financial picture.
- **Budget Comparison** - A financial statement reader will now be able to view not only the actual revenues and expenditures for the Township's General Fund as compared to the current budget, but also as compared to the original budget.

Internal Control and Fraud Prevention

Designing and maintaining a sound system of internal controls over assets, as well as fraud prevention and detection, are on the forefront in today's business environment. As part of our audit of the Township's 2005 financial statements, we performed additional procedures as required by Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit* (SAS 99). While SAS 99 does not change the focus of the financial statement audit to a "fraud audit," the new standard incorporates a change in mindset for auditors to search for and identify significant fraud risk factors. SAS 99 requires auditors to perform specific procedures to search for significant fraud risk factors, including inquiries with certain members of the Township board, management, and other employees throughout the municipality; a retrospective review of accounting estimates; a detailed review of all journal entries; and other related procedures. We are pleased to report that no significant fraud risk factors or instances of fraud were identified as a result of our procedures.

Investment Policy

It is our understanding that the Township has not formally adopted an investment policy, which is required by State law in compliance with Public Act 196 of 1997. Upon adoption by the board, this policy should be forwarded to all financial intermediaries, who should formally acknowledge its receipt. We would be happy to assist the Township with the development of such a policy.

We would like to thank you for the opportunity to serve the Township of Lake. We would also like to express our appreciation for the courtesy and cooperation extended to our staff by the administration during the audit. If you have any questions regarding any of the information noted above or presented in the financial statements, please feel free to call us at your convenience.

Very truly yours,

Plante & Moran, PLLC



Bruce M. Berend



Jenny L. Cederstrom